EXHIBIT

IRH-SFG-179

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BEFORE THE INSURANCE COMMISSIONER

OF THE STATE OF CALIFORNIA

In the Matter of the Rate Applications of State Farm General Insurance Company, Applicant.	File Nos.: PA-2024-00011, PA-2024-00012, PA-2024-00013 **DECLARATION OF BENJAMIN A. ARMSTRONG IN SUPPORT OF CONSUMER WATCHDOG'S OBJECTIONS TO CDI AND STATE FARM'S TWO-WAY STIPULATION TO INTERIM RATE**

I, Benjamin A. Armstrong, hereby declare as follows:

1. I am over the age of 18 years and a resident of the State of Nebraska. I have personal knowledge of the facts set forth in this Declaration and, if called to do so, could and would testify truthfully thereto.

2. I am the Staff Actuary for Consumer Watchdog. I am a Fellow of the Casualty Actuarial Society and a Member of the American Academy of Actuaries with over 12 years of professional actuarial experience. Prior to joining Consumer Watchdog, I was employed by Markel Insurance as a Senior Actuary, performing various actuarial tasks including pricing, reserving, and reinsurance work.

3. I submit this declaration in support of the Consumer Watchdog's Objections to CDI and State Farm's Two-Way Stipulation to Interim Rate. This declaration is being provided to assist the Administrative Law Judge and the Insurance Commissioner in evaluating the proposed settlement stipulation between the Department of Insurance ("CDI" or "Department") and State Farm General Insurance Company ("State Farm"). It should not be relied upon by any other entities or for any other purpose.

4. In connection with considering the Department and State Farm's proposed settlement stipulation for the "emergency interim" rates requested by State Farm, I reviewed the Rate Applications at issue in the above-captioned matters, as well as the updates and additional information submitted by State Farm, along with other information.

5. The Rate Templates and updated Exhibit 9s State Farm submitted on February 5, 2025 in the Rate Applications on the System for Electronic Rate and Form Filing ("SERFF") in support of its proposed 22% interim rate increase for its non-tenant homeowners policies (PA-2024-00012; File No. 24-1271/SERFF # SFMA-134139896), 38% for its rental dwelling policies (PA-2024-00013; File No. 24-1330/SERFF # SFMA-134139850), and 15% for its renters and condo policies (PA-2024-00011; File No. 24-1273/SERFF # SFMA-134139931) (see Exhibit A hereto [State Farm 2/5/25 Rate Templates and updated Exhibit 9s]) are problematic for several reasons:

- The Rate Templates and partially updated Exhibit 9 files submitted on 2/5/25 are inconsistent with one another from a timing perspective. Exhibit 9, used to calculate the catastrophe adjustment factor, <u>uses actual catastrophe loss data through 2024 along with "estimated" catastrophe loss data for the first weeks of January 2025</u>. The Rate Templates use non-catastrophe loss data through 2023Q4. <u>The Rate Templates must use a consistent time period for all catastrophe and non-catastrophe loss data, otherwise it amounts to cherry-picking the specific loss data that serves the Applicant's interests regardless of potential distortions such as offsets between the catastrophe and non-catastrophe data, which is actuarially unsound</u>. The Prior Approval Rate Filing Instructions require the use of "[d]ata in the recorded period ending no more than eight (8) months prior to the submission date of the filing." For the interim filing submitted 2/5/25, 8 months prior would be 6/5/24, so the earliest acceptable Fiscal Year Ending Quarter would be 2024Q2. 10 CCR §2644.5(c) specifies that "[t]he insurer's history, by year, of California catastrophe losses" shall be submitted "through the most recent year of the recorded period", but not beyond that point. Therefore, State Farm is required to provide non-catastrophe data through 2024Q2 at the earliest, and to submit California catastrophe loss data through 2024, but not beyond. Alternatively, State Farm could submit non-catastrophe data through 2025Q1 (once available) and California catastrophe loss data through 2025.
- Exhibit 9, page 2 uses an unsupported weighting scheme—which is different than that proposed by State Farm in its original filing—that pushes additional weight to the latest partial year (January 2025 in this case), apparently to leverage the effects of the devastating wildfires in Los Angeles. In State Farm's original HO filing from mid-2024, Exhibit 9, page 2, footnote 5 states the following: "The latest year [2023] is given a weight of 6.2%, with each prior year receiving 5% less weight back to 2000. For the years 1990-99, the remainder of the distribution was spread evenly across the 10 year period." State Farm provided the following in the 2/5/25 version of that same footnote: "The latest year [2025] is given a weight of 7.8%, with each prior year

receiving 5% less weight back to 2006 in alignment with CCR 2644.5 which requires that at least 20 years of data be used. Due to the increasing pattern of CAT/AIY within the state a trend factor is supported but has previously been filed and rejected by the Department. Without the use of the trend factor, the reliance on more recent data is most appropriate to reflect the increasing catastrophic loss per exposure over time." It is inappropriate to characterize a trend factor in this way, given the requirement in 10 CCR §2644.5(g) that "For residential and commercial property lines, no trend shall be applied to the catastrophe adjustment except for the trend factor that is used to project AIY as described in subdivision (c)(8) of this section." No support is given for changing the weight applied to the latest year from 6.2% to 7.8%, or for changing the weight for the years 1990–2005 to 0.0% per year from the 1%–3% per year used in State Farm's initial filing.

- Exhibit 9, page 5 uses the same Projected Annual AIY Trend values as the original filings from mid-2024. Per 10 CCR §2644.5(c)(8), "The trend factor that is used to project AIY shall be based on the exponential curve of best fit. Insurers shall file the most recent 27 quarters of company specific AIY and earned exposure data. The insurer shall file its rate change application using the single data period for AIY and, as specified in section 2644.7, premium and loss trend, which data period the insurer determines to be the most actuarially sound. The Commissioner may require the use of an alternative data period if the Commissioner determines that use of such alternative data period is the most actuarially sound approach. No additional trend shall apply to the catastrophe adjustment." In accordance with our statements above, State Farm must either use non-catastrophe data through at least 2024Q2 in conjunction with catastrophe data through 2024, or non-catastrophe data through 2025Q1 (once available) in conjunction with catastrophe data through 2025. In the first case, with respect to State Farm's HO filing, the AIY trend factor would be 0.0% (assuming the same 8-quarter trend period used in State Farm's Rate Template), and in the second case, the AIY trend factor would be -4.2%. Neither of these options support the +9.3% AIY trend factor used by State Farm on the version of HO Exhibit 9 submitted 2/5/25.

- State Farm's revised catastrophe adjustment factors, along with its original excessive selected trends and development factors, result in inflated rate indications in all three filings.

6. In accordance with the statements above, it is my position that a proper rate indication cannot be performed using the inconsistent data submitted to date by State Farm. With that in mind, shortly after receiving the limited data provided with State Farm's interim rate request, I prepared preliminary rate indications that attempted to initially address, within the severe 48-hour time constraints imposed by CDI, many of the issues noted above. <u>These rate indications do not reflect Consumer Watchdog's position regarding the appropriate maximum and minimum permitted earned premium indications, which will be determined through a hearing once State Farm updates its data to reflect a consistent time period, but are provided only to show that State Farm's proposed "emergency interim" rate requests are excessive.</u> The following corrections to the State Farm calculations were reflected in that analysis:

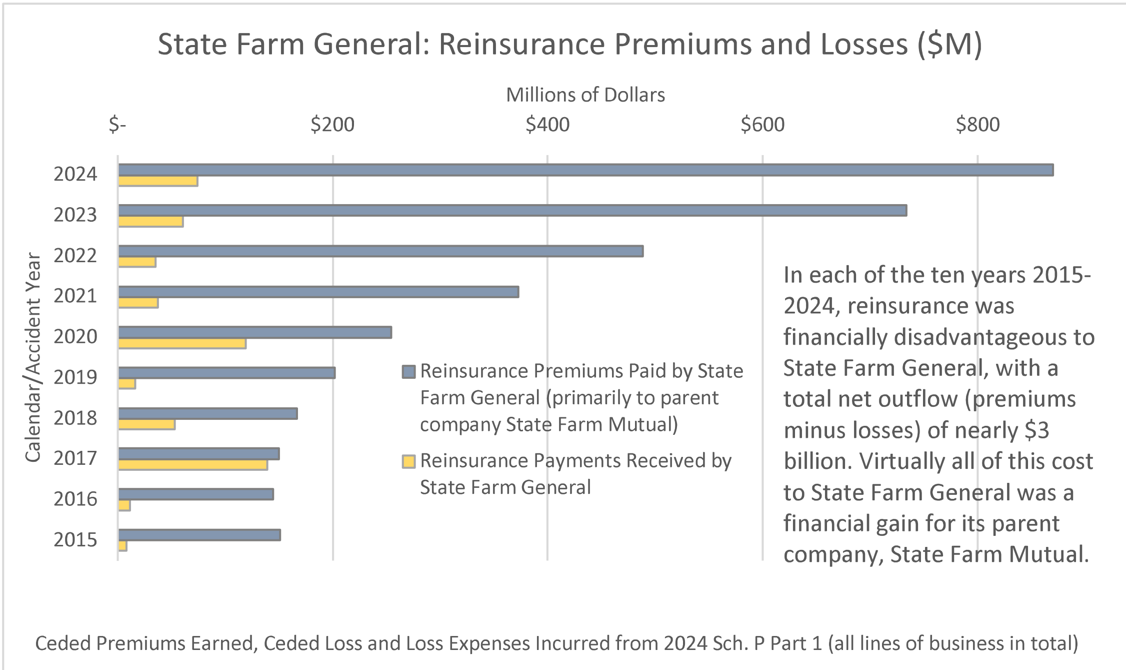
- I reverted to the CAT/AIY weighting schemes used by State Farm in their original filings, to avoid placing an excessive amount of weight on the partial 2025 year.
- In the cat load calculation, I used a Projected Annual AIY trend derived from the AIY data provided on Exhibit 9, page 2.
- I selected trend and development factors that are more actuarially sound and result in a more reasonable rate indication.

Based on my preliminary review of the 2/5/25 Rate Templates along with all other data and information provided to date, my analysis indicated the maximum permitted rate indications under the regulations without any solvency variance 6 (which has not been justified) are -0.1% for homeowners, +8.1% for renters and condo, and +30.6% for rental dwelling. (See Exhibit B hereto [Consumer Watchdog 2/7/25 Rate Templates].) Even considering State Farm's Homeowners and Renters/Condo Rate Templates as they were submitted on 2/5/25, the company's <u>current rates are not "plainly invalid", and thus State Farm is not eligible for interim rate relief. In order to</u>

demonstrate plainly inadequate rates, an insurer's minimum rate change within the Prior Approval Rate Template must be greater than 0.0%. And yet the minimum rate change shown in State Farm's interim Homeowners Rate Template is a decrease of 11.5%, for Renters it is a decrease of 15.3%, and for Condo it is a decrease of 12.8%. (See Exhibit A [Non-Tenant Homeowners Rate Template, p. 7.1; Renters Rate Template, p. 7.1; Condominium Unitowners Rate Template, p. 7.2].)

7. State Farm General ("SFG") has repeatedly claimed that the reinsurance contracts it has with its parent company, State Farm Mutual, "significantly benefitted" California policyholders. Data provided by State Farm as presented by Consumer Watchdog in our February 26 memo and the graph below refute the company's argument. In fact, in each of the ten years from 2015–2024, reinsurance was disadvantageous to SFG but beneficial to its parent company, from whom SFG purchases the vast majority of its reinsurance coverage. Between 2015 and 2024, over 80% of SFG's reinsurance premiums were paid to affiliates, with 85% of that amount going directly to the parent[1]. As a result, the parent has consistently profited from its reinsurance agreements with SFG, while SFG's surplus has steadily declined.

[1] Source: Schedule F, Part 3 from State Farm General's 2015–2024 Annual Statements.



It's particularly notable that this time frame includes the severe wildfire years 2017 and 2018, for which all other major homeowners insurers in California received substantial net recoveries from reinsurance, while SFG reported net losses on reinsurance transactions. Moreover, at the February 26 conference in Oakland between Commissioner Lara, representatives from SFG, and Consumer Watchdog (at which I was in attendance), State Farm acknowledged in response to a question from Consumer Watchdog that the entirety of the $5 billion "significant benefit" to SFG as a result of its reinsurance program with State Farm Mutual is from expected recoveries on one single event—the 2025 Los Angeles wildfires. It is actuarially unsound to base an argument for the robustness of a reinsurance program—or any analysis, for that matter—on a single data point.

DATED: March 24, 2025

Benjamin A. Armstrong